

Message Text

SECRET

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ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 SS-15 L-03 NSC-05 EB-08
TRSE-00 FRB-03 OMB-01 COME-00 CIAE-00 INR-07
NSAE-00 IO-13 /078 W
-----251531Z 102765 /53

R 251355Z MAR 77
FM AMEMBASSY DAMASCUS
TO SECSTATE WASHDC 2394
INFO AMEMBASSY AMMAN
AMEMBASSY CAIRO
AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY PARIS

S E C R E T SECTION 1 OF 2 DAMASCUS 1998

E.O. &\$
TAGS: EFIN, PFOR, SY
SUBJECT: SYRIAN BALANCE OF PAYMENTS: MARCH 1977

REF: (A) DAMASCUS 1078 (NOTAL), (B) DAMASCUS 1633 (NOTAL)

SUMMARY: EMBASSY/AID BELIEVE SARG HAVING FOREIGN
EXCHANGE DIFFICULTIES BASED ON INFO FROM LOCAL
BUSINESSMEN, PRESS, CHASE MANHATTAN BANK AND FNCB
AND IRVING TRUST REPRESENTATIVES, AND OUR OWN
CALCULATIONS. NO DEFINITE CONCLUSIONS POSSIBLE
AS WE ARE UNCERTAIN HOW TO INTERPRET TOTAL INFO.
END SUMMARY.

1. BUSINESSMAN (WHOSE SOURCE MAY BE PRESIDENT'S
BROTHER RIF'AT ASAD) CLAIMED SERIOUS FOREIGN
EXCHANGE CRISIS STILL PREVAILS BROUGHT ABOUT BY FACT
THAT SAUDI ARABIA HAS NOT YET MADE "ANY
PAYMENTS" TO SYRIA IN 1977. THIS HAS FROZEN
SYRIA'S ABILITY TO MEET CURRENT OBLIGATIONS

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AND, ACCORDING TO BUSINESSMAN, COMMERCIAL BANK
OF SYRIA (CBS) HAS BEEN OBLIGATED TO DELAY
\$480 MILLION TO FOREIGN BANKS WHICH CONFIRMED
LCS. ASKED WHY SAUDI ARABIA WOULD WANT TO HURT
SYRIA JUST NOW, THE BUSINESSMAN REPLIED THAT
RIYADH IS DETERMINED TO FORCE THE DAMASCUS
GOVERNMENT FURTHER TO THE RIGHT.

2. MINECON IMADI CONFIRMED TO AMBASSADOR THAT SAUDIS HOLDING UP AID TO SYRIA DEMANDING POLITICAL AND ECONOMIC CHANGES -- AS HE PUT IT "WAITING FOR SYRIA TO PUT ITS HOUSE IN ORDER" BEFORE AID IS DISPURSED. ACCORDING TO IMADI, U FORTUNATELY, THE SAUDIS ARE NOT BEING VERY SPECIFIC ON WHAT CHANGE THEY WANT. EMBASSY HAS BEEN TOLD, AGAIN BY IMADI, THAT SAG COMMITTED \$200 MILLION TO SYRIA IN MID 1976. IT PAID HALF BY JULY AND THE REST ON OR ABOUT THE END OF 1976. ITS "RABAT PAYMENT" WE UNDERSTAND, WOULD AMOUNT TO ABOUT \$170 MILLION, WELL BELOW WHAT THE BUSINESSMAN CLAIMS TO BE THE CURRENT FOREIGN EXCHANGE DEFICIT.

3. LOCAL AP STRINGER WAS CALLED IN BY CENTRAL BANK GOVERNOR DAQQAQ ON MARCH 21 AND GIVEN ON-TH-RECORD INFO ON RABAT PAYMENTS. TOTAL RABAT AID TO SYRIA SINCE 1974, ACCORDING TO DAQQAQ HAS BEEN \$1.512 BILLION WHICH WAS PAID IN FOLLOWING INCREMENTS: 1974 - \$650 MILLION; 1975 - \$500 MILLION; 1976 - \$362 MILLION; 1977- ZERO TO DATE. DAQQAQ TOLD NEWSMAN THAT ARAB DONORS REGARD ONLY 1974 PAYMENTS AND 1977 PLEDGES AS RABAT AID. THE SYRIAN OPPOSING VIEW IS THAT SYRIANS REGARD DIFFERENCES BETWEEN 1974 PAYMENTS LEVEL AND THAT ACTUALLY PROVIDED IN LATER YEARS AS STILL OWED TO SYRIA UNDER RABAT COMMITMENT.

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4. CHASE BANK REPS, WHO VISITED DAMASCUS WITH DAVID ROCKEFELLER MARCH 8 AND 9, TOLD ECONOFF IN CONFIDENCE THAT THEY BELIEVE FINANCIAL ASPECTS OF ABOVE STORY ARE SUBSTANTIALLY CORRECT. THEY STATED THAT SYRIAN GOVERNMENT HAD BEEN VERY FORTHCOMING IN PROVIDING INFORMATION ON CURRENT FOREIGN EXCHANGE PROBLEMS. SPECIFICALLY, SARG SAID SYRIAN FOREIGN EXCHANGE RESERVES DROPPED FROM \$300 MILLION AT THE END OF 1976 TO CURRENT AVERAGE DAILY BALANCE OF APPROXIMATELY ZERO RPT ZERO. FURTHERMORE, CBS IS VERY HEAVILY OVERDRAFT ON LCS TO CHASE. ASKED IF \$480 MILLION FIGURE HENTIT ED ABOVE WAS ACCURATE, CHASE REP REPLIED THAT "IF CBS IF IN OVERDRAFT WITH OTHER FOREIGN BANKS AS IT IS WITH US, THEN \$480 MILLION TOTAL IS PROBABLY AN ACCURATE FIGURE". CHASE REP ASSED THAT NORMAL BCS OVERDRAFT AT CHASE OSCILLATES BETWEEN ZERO AND \$100 MILLION AND IT IS CAUSED

PRIMARILY BY INABILITY OF CBS TO MANAGE FOREIGN
EXCHANGE FLOWS (REF B).

5. IF FOREGOING ACCURATE, TOTAL DRAWDOWN WOULD BE NEARLY
\$700 MILLION, IN TWO MONTHS. SHORTFALLS IN SUCH
FOREIGN EXCHANGE REVENUES, PLUS CONTINUATION OF
LAST YEAR'S RECORD IMPORTS OF FOODS TO FEED
LEBANESE IN SYRIA (THIS IS THE CASE WITH FLOUR),
MIGHT ACCOUNT FOR SOME \$200 MILLION IN ADDITION
TO THE EXPECTED MONTHLY DRAWDOWN OF \$40 MILION IN
THE ABSENCE OF PUBLIC TRANSFERS. FURTHERMORE,
SYRIA'S ABILITY TO MANAGE FOREIGNEXCHANGE FLOWS
IS HANDICAPPED BY THE FACT THAT ITS PRIMARY EXPORT,
PETROLEUM, IS SOLD ON THE SPOT MARKET IN A LARGE
NUMBER OF TRANSACTIONS AND THE PRICES, TERMS OF
SALE, AND CURRENCIES INVOLVED ARE ALL DIFFERENT.
GIVEN A FREAK WORST CASE, SYRIA AT MAXIMUM MIGHT
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HAVE FAILED TO COLLECT ABOUT \$120 MILLION IN THE
LAST 2-1/2 MONTHS. SUCH EVENTS ARE A DEFINITE
POSSIBILITY, AND WOULD BRING RESERVES TO ZERO. IF
THE CHASE REPRESENTATIVE'S ACCOUNT OF THE SITUATION
IS SUBSTANTIALLY ACCURATE (SEE COMMENTS BELOW),
THEN MORE THAN \$400 MILLION REMAINS TO BE
ACCOUNTED FOR. WE CANNOT O
FFER A SATISFACTORY
EXPLANATION OF THIS. CERTAIN EXPENDITURES, SUCH
AS PAYMENTS IN FOREIGN EXCHANGE TO TROOPS IN
LEBANON AND INCREASED SARG COMMITMENTS FOLLOWING
THE PROMISE OF FUNDS AT RIYADH, BUT BEFORE THEIR
RECEIPT, CANNOT PLAUSIBLY EXPLAIN SUCH A SUM.
WE SEE THREE POSSIBLE EXPLANATIONS TO THIS QUESTION:

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ACTION NEA-10

INFO OCT-01 EUR-12 ISO-00 EB-08 TRSE-00 FRB-03 L-03
OMB-01 COME-00 CIAE-00 INR-07 NSAE-00 SS-15 NSC-05
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R 251355Z MAR 77

FM AMEMBASSY DAMASCUS

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INFO AMEMBASSY AMMAN

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S E C R E T SECTION 2 OF 2 DAMASCUS 1998

(A) THE SARG FOR SEVERAL MONTHS HAS BEEN DELINQUENT ON PAYMENT OF BILLS DUE ON SIGNED CONTRACTS AND IS ATTEMPTING TO PAY UP; (B) THE SARG IS INCURRING VERY HEAVY MILITARY EXPENDITURES; (C) THE CHASE INFORMATION HAS BEEN MISUNDERSTOOD.

6. AS FOR (A), THE SARG IS BELIEVED TO HAVE MAINTAINED ITS PAYMENTS ON EXISTING CONTRACTS, WHILE POSTPONING NEW PROJECTS AND TENDERS. HAD THE SARG DEFAULTED ON ITS PAYMENTS, EMBASSY WOULD MOST LIKELY BE AWARE AS WELL. THUS (A) NOT LIKELY POSSIBILITY. AS FOR (B), THE SARG MAY WELL BE INCURRING HEAVY MILITARY EXPENDITURES BECAUSE THE USSR IS BELIEVED TO BE INSISTING ON PROMPT PAYMENT ON EXISTING OBLIGATIONS, AND CASH RPT CASH FOR CURRENT PURCHASES. THIS WOULD BUNCH PAST AND PRESENT MILITARY EXPENDITURES TOGETHER AND, CONSIDERING THE MAGNITUDE OF THE DEFENSE BUDGET (\$1 BILLION OFFICIALLY), MIGHT RESULT IN A SEVERAL HUNDRED MILLION DOLLAR SHORTFALL IF CURRENT PURCHASES ARE HIGH.

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APPROVAL OF THE 1977 BUDGET AND THE EXPECTED RECEIPT OF SOME \$500 MILLION FROM THE OIL-PRODUCERS MAY HAVE WIPED OUT ANY RESISTANCE BY TECHNOCRATS OF THE MINISTRY OF ECONOMY AND THE CENTRAL BANK TO THE MILITARY'S DEMANDS FOR SUPPLIES TO REBUILD INVENTORIES. SATISFACTION OF SUCH DEMANDS WOULD REQUIRE HEAVE EXPORTS TO THE USSR UNDER THE PAYMENTS AGREEMENT, WITH FEWER EXPORTS FOR HARD CURRENCY, AND CONSEQUENTLY A SHORTFALL. ALTERNATIVELY, CAPITAL GOODS EXPENDITURES ORDINARILY MADE IN THE USSR MAY BE REPLACED BY MILITARY EXPENDITURES AND THESE SHIFTED TO THE WEST.

7. AS FOR (C), WE ARE SURPRISED THAT CHASE WOULD GO ALONG WITH CONFIRMATION RESULTING IN SUCH

SUBSTANTIAL OVERDRAFTS ON LCS. IN ADDITION, THE
NORMAL PROCEDURE FOR ISSUING CONFIRMED LCS IS
THAT A CERTAIN PERCENTAGE OF LC AMOUNT, SAY 25 PERCENT,
MUST BE ON DEPOSIT. SUCH AN OVERDRAFT WOULD IMPLY
THAT A VERY SUBSTANTIAL SUM REMAINS ON DEPOSIT
FOR THE "OVERDRAFT" LCS ALONE, AND THUS LESS THAN
\$300 MILLION WOULD REMAIN TO BE PAID.

8. TO ILLUSTRATE THE CONFUSING SIGNALS WE ARE
BASIC OUTLOOK FOR FURTHER FOREIGN EXCHANGE
DIFFICULTIES WILL NOT CHANGE WITHOUT RECEIPT
OF AT LEAST PART OF THE RIYADH COMMITMENT.
REQUEST EMBASSY JIDDA COMMENT
WHETHER THERE IS EVIDENCE OF SAUDI INTENTION TO
PAY SYRIA SOON, TOGETHER WITH ANY COMMENT ON WHETHER
SAUDIS SHARE SYRIANS' OWN PERCEPTION THAT THIS COUNTRY
IS IN CRITICAL FINANCIAL SITUATION.
MURPHY

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